



Robert W. Quinn, Jr.  
Federal Government Affairs  
Vice President

Suite 1000  
1120 20th Street NW  
Washington DC 20036  
202 457 3851  
FAX 202 457 2545

May 15, 2002

Electronic Filing  
Ms. Marlene Dortch  
Secretary  
Federal Communications Commission  
445 12<sup>th</sup> St., SW, Room TWB-204  
Washington, DC 20554

Re: FCC Seeks Comment On AT&T Request to Contribute to Universal Service Based on Projected Revenues, CC Docket No. 96-45, DA No. 02-376

Federal-State Joint Board on Universal Service, CC Docket No. 96-45; 1998 Biennial Regulatory Review – Streamlined Contributor Reporting Requirements Associated with Administration of Telecommunications Relay Service, North American Numbering Plan, Local Number Portability, and Universal Service Support Mechanisms, CC Docket 98-171; Telecommunications Services for Individuals with Hearing Speech Disabilities and the Americans with Disabilities Act of 1990, CC Docket No. 90-571; Administration of the North American Numbering Plan and North American Numbering Plan Cost Recovery Contribution Factor and Fund Size, CC Docket No. 92-237, NSD File No. L-00-72; Number Resource Optimization, CC Docket No. 99-200; Telephone Number Portability, CC Docket No. 95-116; and Truth-in-Billing and Billing Format, CC Docket No. 98-170; and In the Matter of School and Libraries Universal Support Mechanism, CC Docket No. 02-6

Dear Ms. Dortch:

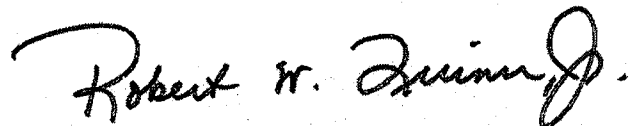
On Tuesday May 14, 2002, Joel Lubin and I met with Kyle Dixon, Legal Adviser to Chairman Michael Powell, to discuss issues related to AT&T's request to, if necessary, a modify or waive the rule that requires carriers to complete the Telecommunications Reporting Worksheet using revenue figures that are lagged by six months and instead utilize a projection of revenues for assessments made beginning July 1, 2002. During the course of that meeting, we stressed the need for the Commission to grant AT&T's request to, on an interim basis, contribute to universal service based on projected revenues as a first step towards reforming the universal service

assessment and collection mechanism. We highlighted the fact that the current assessment mechanism (which assesses AT&T, and consequently AT&T's customers, based on six-month old revenue data) results in AT&T's customers bearing a disproportionately higher share of the universal service contribution in the long distance marketplace. That fact is reflected in the current AT&T collection rate of 11.5% versus other carriers in the marketplace whose collection rates are significantly lower due solely to the fact that their interstate revenues are increasing. We reiterated that the current assessment mechanism, which bases assessment on (six-month old) interstate revenues, is irretrievably broken. AT&T's waiver would represent a first step at addressing the current inequitable mechanism, but that it should be only a first step.

We stressed the need for the Commission to also permanently fix the universal service contribution mechanism by adopting a per connection assessment methodology consistent with AT&T's and other carrier's comments as soon as possible for implementation on January 1, 2003. We distributed two items at the meeting. The first is a chart which explains how carriers with declining revenues are forced to have USF recovery rates that are necessarily greater than the assessment rate given the current mechanism, while carriers in an increasing revenue state could potentially be over-collecting their obligation when they collect at the existing assessment rate. The second document identifies exactly how AT&T's waiver request could be operationalized for July 1, 2002 implementation.

The positions expressed by AT&T were consistent with those contained in the Comments and ex parte filings previously made in the aforementioned dockets. One copy of this Notice is being submitted for each of the referenced proceedings in accordance with the Commission's rules.

Very truly yours,

A handwritten signature in black ink, reading "Robert W. Quinn". The signature is written in a cursive, flowing style with a large, stylized "Q" at the end.

cc: Enclosures  
Kyle

**OPERATIONALIZING AT&T's WAIVER REQUEST**  
**Effective July 1, 2002 for 3<sup>rd</sup> Quarter with 1/1/03 Implementation of CoSUS Proposal**

- AT&T files projections of revenues for the 3rd Quarter of 2002 with USAC (Prospective 499Q) – 5/21/02
- FCC grants AT&T waiver by May 23, 2002
- USAC calculates the revenue assessment rate for the 3rd Quarter of 2002 by dividing the projected USF funding requirements by the revenue base adjusted to remove AT&T historical revenues and replace with AT&T projected revenues for the 3rd Quarter of 2002 – May 23, 2002.
- USAC bills respective Carriers based on their submissions according to the current billing schedule – July 15, August 15, and September 15
- All carriers remit contributions according to current payment schedule – August 15, September 15, and October 15
- Carriers File Form 499-Q with USAC – August 1, 2002
  - AT&T files projections of 4<sup>th</sup> Quarter in addition to its historical 2<sup>nd</sup> Quarter revenues.
- USAC calculates the revenue assessment rate for the 4th Quarter of 2002 by dividing the projected USF funding requirements by the revenue base adjusted to remove AT&T historical revenues and replace with AT&T projected revenues for the 4th Quarter of 2002 – September 6, 2002.
- USAC bills respective Carriers based on their submissions according to the current billing schedule – October 15, November 15, and December 15
- All Carriers remit contributions according to current payment schedule – November 15, December 15, and January 15
- Carriers File Form 499-Q with USAC based on 3<sup>rd</sup> Quarter historical revenues– November 1, 2002

**OPERATIONALIZING AT&T's WAIVER REQUEST**  
**Effective July 1, 2002 for 3<sup>rd</sup> Quarter with 1/1/03 Implementation of CoSUS Proposal**  
**(cont'd)**

- FCC Issues Order regarding CoSUS Proposal – December 16, 2002
- FCC issues a public notice containing all the initial assessment rates of CoSUS Proposal to be effective 1/1/03<sup>1</sup> – December 30, 2002
  - Residence wireless and wireline, Single line business, and Wireless business customers would be assigned an assessment rate of \$1 per month per line/number
  - Lifeline customers would be assigned \$0
  - Pagers would be assigned \$0.25 per number per month
  - Special Access and Private Line services would be assessed at 4th Quarter revenue-based assessment rate
  - The switched Multiline business rate would be calculated as a residual by taking USAC's projected size of the federal USF funding requirement for the 1st Quarter of 2003, increase that estimate by a factor to create a reserve against the initial USF assessments not collected and remitted by the contributors,<sup>2</sup> subtracting the estimated revenues to be collected from residential and single line business, non-paging CMRS, paging and special access/private line, and dividing by the administrative estimate of switched Multiline business lines.
- Carriers contribute to USF based on a collect and remit basis –February 28th, March 30<sup>th</sup>, April 30<sup>th</sup>
  - Carriers apply USF to monthly billings for January, February, and March
  - Carriers remit USF receipts to USAC on February 28th, March 30<sup>th</sup>, and April 30th
- Continue quarterly until implementation of Post-transition phase of CoSUS Proposal

---

<sup>1</sup> For the 4th Quarter, the estimates for line counts and revenues for all customer classifications would be based on the Commission's analyses of various sources. The proposed Form 499-M is not expected to be available for setting the initial assessment rates.

<sup>2</sup> This would replace the existing reserve for amounts uncollectible from contributors. It would be prudent for the Commission to establish a small reserve to cover the initial adjustments for uncollectibles under collect and remit.

**OPERATIONALIZING AT&T's WAIVER REQUEST**  
**Effective July 1, 2002 for 3<sup>rd</sup> Quarter with 1/1/03 Implementation of CoSUS Proposal**  
**(cont'd)**

- True-up Mechanism<sup>3</sup> - Applied in 1st Quarter 2003
  - USAC compares AT&T projected revenues for 3rd Quarter 2002 with actual revenue from November 1<sup>st</sup> Form 499-Q
  - USAC calculates the AT&T (plus/minus) adjustment to the 3rd Quarter assessment based on the difference between the projected revenue base and actual revenue base.
  - USAC applies the AT&T adjustment as an increment to the 1st Quarter 2003 USF funding requirement<sup>4</sup>
  - USAC settles with AT&T based on the difference between their projected revenues for the 3rd Quarter and their actual revenues from their Nov 1<sup>st</sup> Form 499-Q.

---

<sup>3</sup> True-ups are applicable to any quarter for which usf assessments are based on carrier projected data. Adjustments are made to the usf assessments for the second quarter following the quarter that is based on projected data, i.e., the 3rd Quarter 2002 assessments are "trued-up" in the 1st Quarter 2003, using the November 1<sup>st</sup> Form 499-Q, and the 4<sup>th</sup> Quarter 2002 assessments are "trued-up" in the 2<sup>nd</sup> Quarter 2003, using the February 1<sup>st</sup> Form 499-Q.

<sup>4</sup> If AT&T actual revenues for the 3rd Quarter exceeded the projections, then the 1st Quarter 2003 USF funding requirement can be lowered as the difference will be made up by USAC settlements with AT&T. If the projections for the 3rd Quarter exceeded AT&T's actual revenues, then the 1st Quarter 2003 USF funding requirement must be raised to reimburse AT&T, who overpaid in the 3rd Quarter.

# An Illustrative Attribution Analysis of the Current Federal USF Mechanisms

## -- Assessment Vs. Recovery Rates

Quarterly Assessment Mechanism			
Baseline Assumptions:			
A	Contribution Factor	6.81%	As Published by the FCC/USAC Through FCC's Quarterly Public Notices
B	USF Assessment Base	\$ 100,000,000	As Reported By The Telecommunications Carrier To The USAC In Their Form 499Q. <span style="float: right;">Note:</span> Revenues Reported In A Carrier's 499Q Includes Their Interstate and International Retail Revenues Plus Their USF Collection For Any Given Quarter.
C = A * B	USF Obligation	\$ 6,810,000	Expected USAC's Quarterly Billing To That Telecommunication Carrier

Quarterly Recovery Mechanisms					
		Recovery Rate	Recovery Base	Recovered Amount	Remarks
D	No Lag/No Adjustments	6.81%	\$ 100,000,000	\$ 6,810,000	Recovery= Assessment
E	Line D Adjusted To Exclude USF Revenues	7.49%	\$ 90,909,091	\$ 6,810,000	Assuming historical recovery rate as 10% and non-USF revenue as R. Then $R + (R * .10) = \$100,000,000$ or $R = (\$100,000,000 / 1.1) = \$90,909,091$ . ** SEE NOTE BELOW.
F	Line E Adjusted for Uncollectible Revenues	7.89%	\$ 86,363,636	\$ 6,810,000	Assuming 5% Uncollectibles -- USF charges will not be collected from 5% of the revenue base
G	Line F Adjusted for Declining Revenue Base (I.e. Lag Effect)	10.51%	\$ 64,772,727	\$ 6,810,000	Assuming revenues have declined by 25% over the past 6 months. As a result, USF obligation will be recovered from a smaller revenue stream.
H	Line G Adjusted for Unbillable Revevenues	11.68%	\$ 58,295,455	\$ 6,810,000	Assuming 10% Unbillables -- 10% of the revenue base can not be billed USF charges

**\*\* NOTE:** A Telecommunication Carrier's Reported Revenue Included Their USF Collection During That Period. In Order To Estimate and Back-Out Those USF Revenues One Need To Use Their Recovery Rate For That Historical Period. For This Analysis It Is Assumed To Be 10%.

# An Illustrative Attribution Analysis of the Current Federal USF Mechanisms -- Assessment Vs. Recovery Rates

Quarterly Assessment Mechanism			
Baseline Assumptions:			
A	Contribution Factor	6.81%	As Published by the FCC/USAC Through FCC's Quarterly Public Notices
B	USF Assessment Base	\$ 100,000,000	As Reported By The Telecommunications Carrier To The USAC In Their Form 499Q. Note: Revenues Reported In A Carrier's 499Q Includes Their Interstate and International Retail Revenues Plus Their USF Collection For Any Given Quarter.
C = A * B	USF Obligation	\$ 6,810,000	Expected USAC's Quarterly Billing To That Telecommunication Carrier

Quarterly Recovery Mechanisms -- WITH INCREASING REVENUE BASE					
		Recovery Rate	Recovery Base	Recovered Amount	Remarks
D	No Lag/No Adjustments	6.81%	\$ 100,000,000	\$ 6,810,000	Recovery= Assessment
E	Line D Adjusted To Exclude USF Revenues	7.27%	\$ 93,624,192	\$ 6,810,000	Assuming historical recovery rate as 10% and non-USF revenue as R. Then $R + (R * .0681) = \$100,000,000$ or $R = (\$100,000,000 / 1.0681) = \$93,624,192$ . ** SEE NOTE BELOW.
F	Line E Adjusted for Increasing Revenue Base (I.e. Lag Effect)	6.06%	\$ 112,349,031	\$ 6,810,000	Assuming revenues have INCREASED by 20% over the past 6 months. As a result, USF obligation will be recovered from a HIGHER revenue stream.
G	Line F Adjusted for Uncollectible Revenues	6.38%	\$ 106,731,579	\$ 6,810,000	Assuming 1% Uncollectibles -- USF charges will not be collected from 1% of the revenue base
H	Line G Adjusted for Unbillable Revenues	6.38%	\$ 106,731,579	\$ 6,810,000	Assuming 0% Unbillables -- NO REVENUES SHOULD BE EXCLUDED FOR UN-BILLABLES

**\*\* NOTE:** A Telecommunication Carrier's Reported Revenue Included Their USF Collection During That Period. In Order To Estimate and Back-Out Those USF Revenues One Need To Use Their Recovery Rate For That Historical Period. For This Analysis It Is Assumed To Be 6.81%.

USF AMOUNT OVER COLLECTED PER QUARTER BY THIS CARRIER IF THEY USE USAC's RATES OF 6.81% =	\$ 458,421
---	------------